

Pinecrest Medical Care Facility

**Financial Report
with Additional Information**

December 31, 2003

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|--|----------------------------------|--|---------------------|
| Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name: <u>Pinecrest Medical Care Facility</u> | County Menominee |
| Audit Date December 31, 2003 | Opinion Date January 29, 2004 | Date Accountant Report Submitted To State: | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|--------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations. | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Reports on individual federal assistance programs (program audits). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

| | | | |
|---|----------------------|-------------|--------------|
| Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC | | | |
| Street Address 67 West Michigan Avenue | City Battle Creek | State MI | ZIP 49017 |
| Accountant Signature  | | | |

Pinecrest Medical Care Facility

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Independent Auditor's Report

To the Family Independence Agency Board
Pinecrest Medical Care Facility

We have audited the combined balance sheet of Pinecrest Medical Care Facility and affiliated entities (owned and operated jointly by Delta, Dickinson and Menominee Counties, Michigan), as of December 31, 2003 and 2002, and the related combined statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Pinecrest Medical Care Facility and affiliated entities at December 31, 2003 and 2002, and the results of their combined operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Facility adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of January 1, 2002.

The accompanying financial statements do not present the Management's Discussion and Analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Plante & Moran, PLLC

January 29, 2004

A member of



A worldwide association of independent accounting firms

Pinecrest Medical Care Facility

Combined Balance Sheet

| | December 31 | |
|---|-----------------------------|-----------------------------|
| | 2003 | 2002 |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents (Note 2) | \$ 227,852 | \$ 282,491 |
| Accounts receivable (Note 3) | 1,066,846 | 1,089,209 |
| Other current assets | <u>236,120</u> | <u>111,769</u> |
| Total current assets | 1,530,818 | 1,483,469 |
| Assets Limited as to Use | | |
| Deposits and investments (Note 2) | 10,282,947 | 10,849,335 |
| Accrued interest receivable | <u>61,036</u> | <u>90,622</u> |
| Total assets limited as to use | 10,343,983 | 10,939,957 |
| Property and Equipment (Note 4) | <u>6,862,440</u> | <u>6,268,078</u> |
| Total assets | <u>\$ 18,737,241</u> | <u>\$ 18,691,504</u> |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Bank line of credit (Note 5) | \$ 29,575 | \$ - |
| Accounts payable - Trade | 138,961 | 229,833 |
| Accounts payable - Construction | 139,719 | 33,529 |
| Accrued salaries and related withholdings | 367,178 | 357,566 |
| Accrued compensated absences | 521,928 | 494,337 |
| Deferred revenue | 102,970 | 235,472 |
| Other current liabilities | <u>98,010</u> | <u>100,429</u> |
| Total current liabilities | 1,398,341 | 1,451,166 |
| Net Assets | | |
| Invested in capital assets | 6,862,440 | 6,268,078 |
| Unrestricted | <u>10,476,460</u> | <u>10,972,260</u> |
| Total net assets | <u>17,338,900</u> | <u>17,240,338</u> |
| Total liabilities and net assets | <u>\$ 18,737,241</u> | <u>\$ 18,691,504</u> |

Pinecrest Medical Care Facility

Combined Statement of Revenue and Expenses and Changes in Net Assets

| | December 31 | |
|---------------------------------------|-----------------------------|-----------------------------|
| | 2003 | 2002 |
| Operating Revenue | | |
| Net patient revenue | \$ 10,455,131 | \$ 10,208,532 |
| Proportionate share program revenue | 262,128 | 494,984 |
| Other operating revenue | <u>70,434</u> | <u>57,636</u> |
| Total operating revenue | 10,787,693 | 10,761,152 |
| Operating Expenses | | |
| Salaries | 6,784,505 | 6,553,410 |
| Other expenses | <u>4,129,837</u> | <u>3,874,797</u> |
| Total operating expenses | <u>10,914,342</u> | <u>10,428,207</u> |
| Operating Income (Loss) | (126,649) | 332,945 |
| Nonoperating Revenue | 225,211 | 524,461 |
| Transfer from Delta County | <u>-</u> | <u>7,463</u> |
| Increase in Net Assets | 98,562 | 864,869 |
| Net Assets - Beginning of year | <u>17,240,338</u> | <u>16,375,469</u> |
| Net Assets - End of year | <u>\$ 17,338,900</u> | <u>\$ 17,240,338</u> |

Pinecrest Medical Care Facility

Combined Statement of Cash Flows

| | Year Ended December 31 | |
|---|----------------------------|----------------------------|
| | 2003 | 2002 |
| Cash Flows from Operating Activities | | |
| Cash received from residents and third-party payors | \$ 10,300,406 | \$ 10,153,220 |
| Other operating revenue | 70,434 | 57,636 |
| Cash received from Proportionate Share Program | 205,688 | 243,331 |
| Cash paid to employees and suppliers | <u>(10,431,545)</u> | <u>(9,863,697)</u> |
| Net cash provided by operating activities | 144,983 | 590,490 |
| Cash Flows from Noncapital Financing Activities | | |
| Contributions received | 10,057 | 8,576 |
| Cash Flows from Capital and Related Financing Activities | | |
| Purchase of property and equipment | (1,050,382) | (1,069,918) |
| Principal and interest paid on long-term debt | - | (13,460) |
| Borrowings under line of credit | 29,575 | - |
| Transfer from Delta County | <u>-</u> | <u>7,463</u> |
| Net cash provided by capital and related financing activities | (1,020,807) | (1,075,915) |
| Cash Flows from Investing Activities | | |
| Rental income | 46,800 | 46,800 |
| Interest received | 197,940 | 477,247 |
| Proceeds from sale of investments in assets limited as to use | 9,492,810 | 8,183,589 |
| Purchase of investments in assets limited as to use | <u>(12,252,633)</u> | <u>(8,395,442)</u> |
| Net cash provided by (used in) investing activities | <u>(2,515,083)</u> | <u>312,194</u> |
| Net (Decrease) in Cash and Cash Equivalents | (3,380,850) | (164,655) |
| Cash and Cash Equivalents - Beginning of year | <u>5,265,118</u> | <u>5,429,773</u> |
| Cash and Cash Equivalents - End of year | <u><u>\$ 1,884,268</u></u> | <u><u>\$ 5,265,118</u></u> |

Pinecrest Medical Care Facility

Combined Statement of Cash Flows (Continued)

| | December 31 | |
|--|----------------------------|----------------------------|
| | 2003 | 2002 |
| Balance Sheet Classification of Cash and Cash Equivalents | | |
| Current assets | \$ 227,852 | \$ 282,491 |
| Assets limited as to use (Note 2) | <u>1,656,416</u> | <u>4,982,627</u> |
| Total | <u>\$ 1,884,268</u> | <u>\$ 5,265,118</u> |

A reconciliation of operating income (loss) to net cash from operating activities is as follows:

| | Year Ended December 31 | |
|--|--------------------------|--------------------------|
| | 2003 | 2002 |
| Operating income (loss) | \$ (126,649) | \$ 332,945 |
| Adjustments to reconcile operating income to net cash from operating activities: | | |
| Depreciation | 562,210 | 538,410 |
| Bad debts | 98,607 | 31,080 |
| (Increase) decrease in assets: | | |
| Accounts receivable | (76,244) | (72,843) |
| Other current assets | (124,351) | (14,717) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (90,872) | 16,057 |
| Accrued liabilities | 34,784 | (72,314) |
| Deferred revenue | <u>(132,502)</u> | <u>(168,128)</u> |
| Net cash provided by operating activities | <u>\$ 144,983</u> | <u>\$ 590,490</u> |

At December 31, 2003 and 2002, property and equipment additions totaling \$139,719 and \$33,529, respectively, were included in accounts payable.

Pinecrest Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 1 - Nature of Business and Significant Accounting Policies

Pinecrest Medical Care Facility (the Facility) is a 174-bed, long-term medical care facility owned and operated jointly by Delta, Dickinson and Menominee Counties. The Facility is governed by a nine-member Family Independence Agency Board. This Board is made up of six members appointed by participating counties (two each) and three members appointed by the Governor of Michigan (one to each County). This Board also oversees the operations of Whispering Pines and Powers Activity Center. Whispering Pines operates three residential care facilities for developmentally disabled adults. Whispering Pines also has a contract with an outside provider to provide community-supported living arrangement programs that provide housekeeping, personal care services and transportation to developmentally disabled adults and senior citizens living on their own. Powers Activity Center is an outpatient mental health facility. As required by generally accepted accounting principles, these financial statements present Pinecrest Medical Care Facility and its component units. The individual component units discussed above are included because of the significance of their operational or financial relationships with Pinecrest Medical Care Facility.

Basis for Presentation - The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. The Facility now follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Facility's financial activities. There was no impact to the net assets of the Facility in adopting GASB No. 34.

Accrual Basis - The financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

Cash Equivalents - The Facility considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investments - Investments are recorded at fair value.

Assets Limited as to Use - Assets limited as to use include assets set aside by the Family Independence Agency Board for future capital improvements, funding of combined time off and managed care contracting. The Board retains control and may, at its discretion, subsequently use for other purposes.

Pinecrest Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property and Equipment - All property and equipment are reported at historical cost. Donated assets are recorded at the fair market value at the time of the donation. Depreciation on such fixed assets is charged as an expense against the operations on a straight-line basis.

Compensated Absences - Employees earn benefit days under the Facility's combined time off policy. The value of the combined time off is charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Approximately 90 percent of the revenue from patient services is received from the Medicare and Medicaid programs. The Facility has agreements with the Medicare and Medicaid programs to provide reimbursement to the Facility at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Facility's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

Medicare - Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Medicaid - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates based on a cost reimbursement methodology.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Pinecrest Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Proportionate Share Reimbursement Program (PSRP) - During the years ended December 31, 2003 and 2002, the Facility participated in the PSRP sponsored by the State of Michigan. During 2003, two transactions were completed. The first transaction in September was recorded in revenue in relation to the State fiscal year that ended September 30, 2003. The second transaction in October was for the State fiscal year ended September 30, 2004 and therefore was recognized one quarter in revenue and three quarters in deferred revenue. During 2002, two transactions were completed. The first transaction, in September, was recorded in revenue in relation to the State fiscal year that ended September 30, 2002. The second transaction in October was for the State fiscal year ended September 30, 2003 and therefore was recognized one quarter in revenue and three quarters in deferred revenue.

Charity Care - The Medical Care Facility provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Medical Care Facility does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient revenue. Amounts written off to charity care totaled approximately \$12,000 and \$13,000 for the years ended December 31, 2003 and 2002, respectively.

Operating Revenues and Expenses - The Facility's statement of revenue, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services-the Facility's principal activity. Nonexchange revenues, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Pinecrest Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 2 - Deposits and Investments

The Facility's deposits and investments are composed of the following:

| | 2003 | 2002 |
|--------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 227,852 | \$ 282,491 |
| Assets limited as to use: | | |
| Deposits | 1,656,416 | 4,982,627 |
| Investments | <u>8,626,531</u> | <u>5,866,708</u> |
| Total assets limited as to use | <u>10,282,947</u> | <u>10,849,335</u> |
| Total | <u>\$ 10,510,799</u> | <u>\$ 11,131,826</u> |

The above amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

| | 2003 | 2002 |
|-------------|----------------------|----------------------|
| Deposits | \$ 1,883,818 | \$ 5,264,668 |
| Investments | 8,626,531 | 5,866,708 |
| Petty cash | <u>450</u> | <u>450</u> |
| Total | <u>\$ 10,510,799</u> | <u>\$ 11,131,826</u> |

Deposits - The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) totaling \$1,977,753 and \$5,323,950 at December 31, 2003 and 2002, respectively. The amount covered by federal depository insurance was \$498,482 and \$481,411 at December 31, 2003 and 2002, respectively. The amount uninsured and uncollateralized was \$1,479,271 and \$4,842,539 at December 31, 2003 and 2002, respectively.

Pinecrest Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 2 - Deposits and Investments (Continued)

The Facility believes that due to the dollar amounts of cash deposits and the limits of federal depository insurance, it is impractical to insure all bank deposits. As a result, the Facility evaluates each financial institution it deposits Facility funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments - The Facility is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U. S. bonds and notes, certain commercial paper, U. S. government repurchase agreements, bankers acceptances and mutual funds and investment pools that are composed of authorized investment vehicles. The Facility's investments are categorized below to give an indication of the level of risk assumed by the entity at December 31, 2003 and 2002. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the Facility or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Facility's name. Category 3 includes investments held by:

- a. The counterparty or
- b. The counterparty's trust department (or agent) but not in the Facility's name

Pinecrest Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 2 - Deposits and Investments (Continued)

| | 2003 | | | |
|-------------------------------|---------------------|---------------------|-------------|---------------------|
| | Category | | | Carrying |
| | 1 | 2 | 3 | Amount |
| U.S. government securities | <u>\$ 7,365,695</u> | <u>\$ 1,259,298</u> | <u>\$ -</u> | \$ 8,624,993 |
| Money market and mutual funds | | | | <u>1,538</u> |
| Total investments | | | | <u>\$ 8,626,531</u> |
| | 2002 | | | |
| | Category | | | Carrying |
| | 1 | 2 | 3 | Amount |
| U.S. government securities | <u>\$ 4,829,823</u> | <u>\$ 1,035,282</u> | <u>\$ -</u> | \$ 5,865,105 |
| Money market and mutual funds | | | | <u>1,603</u> |
| Total investments | | | | <u>\$ 5,866,708</u> |

The Facility routinely invests its surplus operating funds in money market and mutual funds. These funds generally invest in highly liquid U.S. governmental and agency obligations. Investments in money market and mutual funds are not insured or guaranteed by the U.S. government, but are registered with the SEC; however, management believes that credit risk related to these investments is minimal.

Note 3 - Accounts Receivable

The details of accounts receivable are as follows:

| | 2003 | 2002 |
|--|---------------------|---------------------|
| Accounts receivable, gross | \$ 1,084,474 | \$ 1,093,210 |
| Less allowances for uncollectible accounts | (55,000) | (55,000) |
| Medicaid interim payment receivables | <u>37,372</u> | <u>30,999</u> |
| Accounts receivable, net | <u>\$ 1,066,846</u> | <u>\$ 1,089,209</u> |

Pinecrest Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 4 - Property and Equipment

The details of property and equipment and depreciable lives are as follows:

| | 2002 | Additions | Retirements | 2003 | Depreciable Life - Years |
|--------------------------------|---------------------|---------------------|-------------|---------------------|-----------------------------|
| Cost: | | | | | |
| Land | \$ 22,211 | \$ - | \$ - | \$ 22,211 | N/A |
| Building and improvements | 11,597,367 | 944,354 | - | 12,541,721 | 10-40 |
| Equipment | <u>2,105,652</u> | <u>212,218</u> | <u>-</u> | <u>2,317,870</u> | 4-20 |
| Total | 13,725,230 | <u>\$ 1,156,572</u> | <u>\$ -</u> | 14,881,802 | |
| Less accumulated depreciation: | | | | | |
| Land | - | \$ - | \$ - | - | |
| Building and improvements | 6,044,963 | 432,403 | - | 6,477,366 | |
| Equipment | <u>1,412,189</u> | <u>129,807</u> | <u>-</u> | <u>1,541,996</u> | |
| Total | <u>7,457,152</u> | <u>\$ 562,210</u> | <u>\$ -</u> | <u>8,019,362</u> | |
| Net carrying amount | <u>\$ 6,268,078</u> | | | <u>\$ 6,862,440</u> | |

| | 2001 | Additions | Retirements | 2002 | Depreciable Life - Years |
|--------------------------------|---------------------|-------------------|-------------------|---------------------|-----------------------------|
| Cost: | | | | | |
| Land | \$ 22,211 | \$ - | \$ - | \$ 22,211 | N/A |
| Building and improvements | 10,876,778 | 737,264 | 16,675 | 11,597,367 | 10-40 |
| Equipment | <u>2,078,841</u> | <u>196,383</u> | <u>169,572</u> | <u>2,105,652</u> | 4-20 |
| Total | 12,977,830 | <u>\$ 933,647</u> | <u>\$ 186,247</u> | 13,725,230 | |
| Less accumulated depreciation: | | | | | |
| Land | - | \$ - | \$ - | - | |
| Building and improvements | 6,046,586 | 15,052 | 16,675 | 6,044,963 | |
| Equipment | <u>1,058,043</u> | <u>523,718</u> | <u>169,572</u> | <u>1,412,189</u> | |
| Total | <u>7,104,629</u> | <u>\$ 538,770</u> | <u>\$ 186,247</u> | <u>7,457,152</u> | |
| Net carrying amount | <u>\$ 5,873,201</u> | | | <u>\$ 6,268,078</u> | |

Pinecrest Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 5 - Bank Line of Credit

For protection against overdrawn checks, the Facility has established sweep accounts and obtained a line of credit with a local bank. The Facility had borrowings under this line of credit of \$29,575 at December 31, 2003. The line of credit is unsecured and carries an interest rate of 5%. The line of credit was repaid in January 2004.

Note 6 - Related Party Transactions

Transfer from Delta County

As explained in Note 1, the Facility is owned and operated jointly by Delta, Dickinson and Menominee Counties. During 2002, Delta County transferred excess millage funds totaling \$7,463 to Pinecrest for capital projects.

Maintenance of Effort

Maintenance of effort (M.O.E.) payments are county obligations to the State of Michigan. Every month the State bills the county, at a per diem rate, for each Medicaid patient day at the Medical Care Facility. All obligations are paid by the county except for amounts relating to a fourteen-bed addition, which are the responsibility of the Facility.

Pinecrest Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 7 - Defined Contribution Retirement Plan

The Facility has two defined contribution plans, one for union employees and one for nonunion employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Facility contributes two percent of employees' gross earnings for participants of the bargaining units under a collective bargaining agreement, and nine percent of gross earnings for participants in the nonunion plan. The Facility's contributions for each employee (plus interest allocated to the employee's account) are fully vested after 10 years of service. In accordance with these requirements, the Facility contributed approximately \$132,000 and \$168,000 during 2003 and 2002, respectively. There were no employee contributions to the plans in either year.

Note 8 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for malpractice and general liability claims, and employee medical benefit claims. The Facility is uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Facility is insured against potential professional liability claims under an occurrence-basis policy, whereby all claims resulting from incidents that occur during the policy period are covered up to insured limits, regardless of when the claims are reported to the insurance carrier. There are no known outstanding or pending claims at December 31, 2003 and 2002.

The Facility records workers' compensation claims as they are processed by the claims administrator. The Facility has also purchased stop loss insurance for claims that exceed \$275,000. Changes in the estimated liability for the past two fiscal years were as follows:

| | 2003 | 2002 |
|--|------------------|------------------|
| Estimated liability - Beginning of year | \$ 70,000 | \$ 130,000 |
| Estimated claims incurred, including changes in estimates | 241,870 | 174,676 |
| Claim payments | (237,248) | (234,676) |
| Other expenses | - | - |
| Estimated liability - End of year | <u>\$ 74,622</u> | <u>\$ 70,000</u> |

Additional Information



Plante & Moran, PLLC

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Board of Trustees
Pinecrest Medical Care Facility

We have audited the combined financial statements of Pinecrest Medical Care Facility for the years ended December 31, 2003 and 2002. Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying schedules, as outlined in the table of contents, are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Plante & Moran, PLLC

January 29, 2004

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Pinecrest Medical Care Facility

Combining Balance Sheet Assets

| | December 31 | | | | |
|---------------------------------|------------------------------------|---------------------|---------------------------|----------------------|----------------------|
| | Pinecrest Medical Care Facility | Whispering Pines | Powers Activity Center | 2003 Total | 2002 Total |
| Current Assets | | | | | |
| Cash | \$ 57,354 | \$ 106,182 | \$ 64,316 | \$ 227,852 | \$ 282,491 |
| Accounts receivable - Patient | 996,424 | 57,126 | 13,296 | 1,066,846 | 1,089,209 |
| Other current assets | 191,163 | 42,879 | 2,078 | 236,120 | 111,769 |
| Total current assets | 1,244,941 | 206,187 | 79,690 | 1,530,818 | 1,483,469 |
| Assets Limited as to Use | | | | | |
| Deposits and investments | 9,686,661 | 306,627 | 289,659 | 10,282,947 | 10,849,335 |
| Accrued interest receivable | 61,036 | - | - | 61,036 | 90,622 |
| Total assets limited as to use | 9,747,697 | 306,627 | 289,659 | 10,343,983 | 10,939,957 |
| Property and Equipment | 6,626,938 | 155,933 | 79,569 | 6,862,440 | 6,268,078 |
| Total assets | <u>\$ 17,619,576</u> | <u>\$ 668,747</u> | <u>\$ 448,918</u> | <u>\$ 18,737,241</u> | <u>\$ 18,691,504</u> |

Pinecrest Medical Care Facility

Combining Balance Sheet Liabilities and Fund Balance

| | December 31 | | | | |
|---|------------------------------------|---------------------|---------------------------|----------------------|----------------------|
| | Pinecrest Medical Care Facility | Whispering Pines | Powers Activity Center | 2003 Total | 2002 Total |
| Current Liabilities | | | | | |
| Line-of-credit | \$ 29,575 | \$ - | \$ - | \$ 29,575 | \$ - |
| Accounts payable - Trade | 106,343 | 21,854 | 10,764 | 138,961 | 229,833 |
| Accounts payable - Construction | 139,719 | - | - | 139,719 | 33,529 |
| Accrued salaries and related withholdings | 352,910 | 14,268 | - | 367,178 | 357,566 |
| Accrued compensated absences | 483,356 | 34,515 | 4,057 | 521,928 | 494,337 |
| Deferred revenue | 177,592 | - | - | 177,592 | 235,472 |
| Other current liabilities | 9,802 | 13,586 | - | 23,388 | 100,429 |
| Total current liabilities | 1,299,297 | 84,223 | 14,821 | 1,398,341 | 1,451,166 |
| Net Assets | 16,320,279 | 584,524 | 434,097 | 17,338,900 | 17,240,338 |
| Total liabilities and net assets | <u>\$ 17,619,576</u> | <u>\$ 668,747</u> | <u>\$ 448,918</u> | <u>\$ 18,737,241</u> | <u>\$ 18,691,504</u> |

Pinecrest Medical Care Facility

Combining Statement of Revenue and Expenses and Changes in Net Assets

| | Year Ended December 31 | | | | |
|--|------------------------------------|---------------------|---------------------------|----------------------|----------------------|
| | Pinecrest Medical Care Facility | Whispering Pines | Powers Activity Center | 2003 Total | 2002 Total |
| Operating Revenue | | | | | |
| Net patient revenue | \$ 8,750,851 | \$ 1,517,808 | \$ 186,472 | \$ 10,455,131 | \$ 10,208,532 |
| Proportionate share reimbursement | 262,128 | - | - | 262,128 | 494,984 |
| Other operating revenue | 70,434 | - | - | 70,434 | 57,636 |
| Total operating revenue | 9,083,413 | 1,517,808 | 186,472 | 10,787,693 | 10,761,152 |
| Operating Expenses | | | | | |
| Salaries | 5,637,626 | 1,038,612 | 108,267 | 6,784,505 | 6,553,410 |
| Other expenses | 3,653,398 | 424,150 | 52,289 | 4,129,837 | 3,874,797 |
| Total operating expenses | 9,291,024 | 1,462,762 | 160,556 | 10,914,342 | 10,428,207 |
| Operating Income | (207,611) | 55,046 | 25,916 | (126,649) | 332,945 |
| Nonoperating Revenue | 210,599 | 6,528 | 8,084 | 225,211 | 524,461 |
| Transfer from Delta County | - | - | - | - | 7,463 |
| Excess of Revenue over Expenses | 2,988 | 61,574 | 34,000 | 98,562 | 864,869 |
| Net Assets - Beginning of year | 16,317,291 | 522,950 | 400,097 | 17,240,338 | 16,375,469 |
| Net Assets - End of year | <u>\$ 16,320,279</u> | <u>\$ 584,524</u> | <u>\$ 434,097</u> | <u>\$ 17,338,900</u> | <u>\$ 17,240,338</u> |

Pinecrest Medical Care Facility

Schedule of Net Patient Revenue (Medical Care Facility Only)

| | Year Ended December 31 | |
|---------------------------------------|----------------------------|----------------------------|
| | 2003 | 2002 |
| Daily Room Revenue | | |
| Medicaid | \$ 6,887,355 | \$ 6,133,904 |
| Medicare | 615,810 | 616,385 |
| Private pay and other | <u>1,044,110</u> | <u>1,082,448</u> |
| Total daily room revenue | 8,547,275 | 7,832,737 |
| Ancillary Revenue | | |
| Physical therapy | 363,423 | 219,211 |
| Drugs | 126,250 | 144,400 |
| Medical supplies | 2,112 | 4,699 |
| Speech | 13,380 | 12,194 |
| Laboratory | 73,901 | 60,868 |
| Occupational therapy | <u>134,967</u> | <u>103,898</u> |
| Total ancillary revenue | <u>714,033</u> | <u>545,270</u> |
| Gross patient revenue | 9,261,308 | 8,378,007 |
| Revenue Adjustments | | |
| Provision for charity care | (11,801) | (12,939) |
| Provision for contractual adjustments | (578,929) | 89,690 |
| Prior year cost report settlements | <u>80,273</u> | <u>103,867</u> |
| Total revenue adjustments | <u>(510,457)</u> | <u>180,618</u> |
| Net Patient Revenue | <u>\$ 8,750,851</u> | <u>\$ 8,558,625</u> |

Pinecrest Medical Care Facility

Schedule of Operating Expenses (Medical Care Facility Only)

| | Year Ended December 31 | | | |
|-------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | 2003 | | | 2002 |
| | Salaries | Other | Total | Total |
| Administration | \$ 386,903 | \$ 348,026 | \$ 734,929 | \$ 681,098 |
| Facility operations and maintenance | 259,877 | 310,108 | 569,985 | 523,540 |
| Laundry | 171,829 | 39,483 | 211,312 | 197,035 |
| Housekeeping | 257,855 | 30,478 | 288,333 | 298,826 |
| Dietary | 509,173 | 361,924 | 871,097 | 869,277 |
| Pharmacy | - | 135,719 | 135,719 | 153,385 |
| Nursing | 3,681,888 | 295,365 | 3,977,253 | 3,813,272 |
| Physical therapy | 191,539 | 4,619 | 196,158 | 181,417 |
| Speech therapy | - | 6,432 | 6,432 | 8,330 |
| Occupational therapy | 178,562 | 43,993 | 222,555 | 214,132 |
| Medical services | - | 70,712 | 70,712 | 33,473 |
| Fringe benefits | - | 1,372,511 | 1,372,511 | 1,366,254 |
| Depreciation | - | 535,421 | 535,421 | 515,847 |
| Nursing home quality incentive | - | - | - | - |
| Provision for bad debts | - | 98,607 | 98,607 | 31,080 |
| 2003 totals | <u>\$ 5,637,626</u> | <u>\$ 3,653,398</u> | <u>\$ 9,291,024</u> | |
| 2002 totals | <u>\$ 5,459,602</u> | <u>\$ 3,427,364</u> | | <u>\$ 8,886,966</u> |

Pinecrest Medical Care Facility

Schedule of Nonoperating Revenue (Medical Care Facility Only)

| | Year Ended December 31 | |
|----------------------------|------------------------|-------------------|
| | 2003 | 2002 |
| Investment income | \$ 153,742 | \$ 451,313 |
| Rental income | 46,800 | 46,800 |
| Contributions | 10,057 | 8,576 |
| Total nonoperating revenue | <u>\$ 210,599</u> | <u>\$ 506,689</u> |